Food Products Machinery (1.18%) PPI 1241.02, Laundry Equipment (23.53%). FPPI 113 less 1134 and 1136, Metalworking Machinery less Industrial Furnaces and Abrasive Products (35.29%).

Business Service Equipment — PPI 1193 less 1193.06, Business and Store equipment (less Coin Operated Vending Machines) and PPI 122, Commercial Furniture.

(5) Assets retired before the close of the fiscal year are not to be used in the calculation of the Price Level Allowance.

(6) The amount of the Price Level Allowance is calculated as follows:

(A) Current year straight-line depreciation of each asset being depreciated is multiplied by the price level factor corresponding to the year the asset was acquired to determine price level depreciation. Straight-line depreciation is then subtracted from price level depreciation and the result totaled to determine the amount of the Price Level Allowance provided by the following calculation:

Algebraically the calculation is as follows:

D.....(equals) Current year depreciation, ordered by the year of acquisition of the asset being depreciated.

F.....(equals) Price level factor for the year the asset was acquired.

PLA...(equals) Price Level Allowance

PLA...(equals) (DxF)-D

(7) The interest component of cash disbursements relative to capitalized Major Moveable Equipment leases is to be classified as interest expense, in accordance with GAAP, and not used as a basis for calculating the price level depreciation premium.

(8) The total Price Level Allowance will be allocated to cost centers based upon the accumulated depreciation of all Major Moveable Equipment not fully depreciated. The allocation method is as follows:

$$\frac{\text{Price Leveled Depreciation Allowance}}{\text{Total Major Moveable Equipment Depreciation}} = \text{Price Level Factor (PLF)}$$

PLF X Major Moveable Equipment Depreciation in Each Individual Cost Center = Amount of Price Level Allowance for Each Cost Center.

(b) Any new capital facilities construction with a valid certificate of need from the New Jersey Department of Health and Senior Services will be considered for a capital facilities adjustment in rates through the review and appeal process as described in Section 9.

5.19 Reserved

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5.20 Derivation From Preliminary Cost Base

(a) Apportionment of financial elements based on direct costs shall be as follows:

1. All other Financial Elements are added to direct Medicaid patient care costs as percentages of direct costs per Medicaid case. The Schedule of Rates is set such that all Medicaid patients' rates are based on the cost of services received by Medicaid clients, including a proportionate share of indirect financial elements requirements of operating hospital facilities.

2. In the event that a hospital is self-insured for employee health benefits, the percentage of personnel health allowance recognized in the rates shall be proportioned to the number of Medicaid clients serviced by the facility to financial elements from payers for such costs.

3. Each hospital shall receive from the Division a base rate order detailing the Schedule of Rates.

5.21 Schedule of rates-effective date

All rates issued pursuant to this Subchapter, as approved or modified, shall be effective as of October 1, 1996, of the rate year and then January 1 for subsequent rate years except for fiscal year hospitals whose rates shall be effective as of the first day of the "fiscal" rate year.

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SECTION 6: FINANCIAL REPORTING PRINCIPLES AND CONCEPTS

6.1 Reporting Period

(a) The basic reporting period is the 12 consecutive calendar months prior to the hospital's first Medicaid rate. If a hospital does not participate in Medicare, the basic reporting period is the twelve (12) consecutive calendar months used for the hospital's fiscal year prior to the hospital's first Medicaid rate."

(b) New hospitals beginning operations on any day other than January 1st must select an initial reporting period beginning on the first day of operation, through the last month preceding the hospital's fiscal year.

(c) Each calendar year's Financial Elements Reporting Forms are due on May 31 of the following year. Each year's Audited Financial Statement is due on May 31 of the following year.

6.2 Objective Evidence

(a) Information produced by the accounting process should be based, to the extent possible, upon objectively determined facts. Transactions should be supported by properly executed documents such as charge slips, purchase orders, suppliers' invoices, cancelled checks, etc.. such documents serve as objective evidence of transactions and should be retained as a source of verification of the data in the accounting records.

(b) Certain determinations that enter into accounting records are based on estimates. Such estimates should be based on past experience modified by expected future considerations. Items of Other Operating Expenses, if not directly classified by the hospital, if large in amount, must be identified through a cost study, and if small in amount, costs may be deemed equal to revenue and such costs apportioned among the appropriate natural classifications of expense based on the hospital's estimate or the classifications of the center where originating. Worksheets are provided along with Reporting Schedules to aid the hospital in making all appropriate reclassifications. All such reclassifications should be consistent with the concept of materiality, defined in section 6.5.

(c) Books, papers, records, or other data relevant to matters of hospital ownership, organization, and operation must be maintained. The data must be maintained in an ongoing recordkeeping system which allows the data to be readily verified by qualified auditors.

6.3 Consistency

(a) Consistency refers to continued uniformity during a period and from one period to another in methods of accounting, mainly in valuation bases and methods of accrual, as reflected in the financial statements of an accounting entity. Consistency is very important to the development and analysis of trends on a year to year basis and as a means of forecasting. However, consistency does not require continued adherence to a suboptimal method or procedure. Any change of accounting procedure, consistent with the materiality principle, must be brought to the attention of the Division by way of a cover letter which will accompany the hospital's Financial Elements Report to include both a description and analysis of reporting impact of such accounting procedure changes.

1. As an example, the accounting principle of accrual reporting may cause some hospitals who currently account for vacation on a cash basis to incur a one time reporting of expenses related to vacation time earned by employees but not yet taken. Such one time costs must be included in a cover letter and the Financial Elements Report shall identify only those vacations costs accrued in the current reporting period.

(b) Any accounting and reporting changes due to subsequent revisions of this plan or the documents referred to herein shall be reported in accordance with the instructions which accompany those revisions.

6.4 Full disclosure

The concept of full disclosure requires that all significant data be clearly and completely reflected in accounting reports. If, for example, a hospital were to change its method of accounting for certain transactions, and if the change was a material effect on the reported financial position, or operating when, the nature of the change in method and its effect must be disclosed when reporting costs. No fact that would influence the decisions of management, the governing board, or other users of financial statements should be omitted from or concealed in accounting reports.

6.5 Materiality

Materiality is an elusive concept with the dividing line between material and immaterial amounts subject to interpretation. It is clear, however, that an amount is material if its exclusion from the financial statements would cause misleading or incorrect conclusions to be drawn by users of the statements.

6.6 Basis of Valuation

(a) Historical cost is the basis used in accounting for the valuation of all assets and in recording all expenses (except fair market value in the case of donated non-cash goods and services). Historical cost, simply defined, is the amount of cash or cash equivalents given in exchange for properties or services at the time of acquisition. It is the basis for the valuation of assets and for the recording of most expenses. Cost ordinarily has been the basis of accounting for assets and expenses because it is a permanent and objective measurement that reflects the accountability of management for the utilization of hospital funds.

(b) Although the basis for developing capital-related financial elements [illegible] be Division approved replacement costs of plant and equipment, hospitals shall be required to maintain records and report assets and related depreciation according to both historical values and price leveled values as prescribed in this plan.

(c) Long term investments shall be reported at current market value as with corresponding income or loss reported as realized or unrealized.

(d) Hospitals frequently acquire property, equipment, services and supplies by donation. The property, equipment, service and/or supply shall be considered donated when acquired without the hospital's making any payment for it in the form of cash, property or service. The property, equipment, service or supply shall be valued at acquisition at the fair market value which is the price that the asset would cost by bona fide bargaining between well-informed buyers and sellers at the date of donation (regardless of the date of receipt). The fair market value of donated services must be recorded when there is the equivalent of an employer-employee relationship and an objective basis for valuing such services. The value of services donated by organizations may be evidenced by a contractual relationship which may provide the basis for valuation. The amounts recorded shall not exceed those paid others for similar work.